



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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May 18, 2010

TO: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **ALTAMED HEALTH SERVICES CORPORATION CONTRACT REVIEW  
– A DEPARTMENT OF PUBLIC SOCIAL SERVICES CAL-LEARN  
PROGRAM PROVIDER**

We have completed a program, fiscal and administrative contract review of AltaMed Health Services Corporation (AltaMed or Agency), a Department of Public Social Services (DPSS) Cal-Learn Program provider.

**Background**

DPSS contracts with AltaMed, a non-profit community-based organization, to assist CalWORKs participants that are teenage parents in completing their high school education. The contract services include recruiting and enrolling eligible participants, conducting Program orientations, handling case management, identifying and providing supportive services (i.e., child care, transportation, etc.) and assisting participants with enrolling and completing a high school education. The Agency provided services to residents in the First and Fourth Supervisorial Districts during Fiscal Year (FY) 2008-09.

DPSS paid AltaMed a fixed monthly fee for each participant or approximately \$2 million for FY 2008-09.

**Purpose/Methodology**

The purpose of our review was to determine whether AltaMed complied with the contract terms and appropriately accounted for and spent Cal-Learn funds in providing

the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

### **Results of Review**

The program participants met the eligibility requirements for the Cal-Learn Program and AltaMed met the contract's performance outcome measures. In addition, the Agency's staff possessed the required qualifications and maintained appropriate controls over cash. However, AltaMed's Cost Allocation Plan did not comply with the federal cost allocation requirements identified in the County contract and the Agency did not provide documentation that they appropriately allocated payroll costs to the Cal-Learn Program.

In addition, the County contract does not include provisions requiring the Agency to return or reinvest unspent revenues. AltaMed received \$1,993,611 from DPSS for the Cal-Learn Program from May 2008 to April 2009. However, the Agency's expenditures totaled \$1,432,646, which is \$560,965 (\$1,993,611 - \$1,432,646) in unspent Program funds that the contract allowed the Agency to retain. In addition, the Agency retained \$315,032 in unspent funds from the prior year (May 2007 to April 2008). AltaMed management indicated they used the unspent funds on other programs that benefit the Cal-Learn participants.

In their response (Attachment II), DPSS indicated that they intend to work with County Counsel to amend the contract language to include provisions requiring agencies to return or reinvest unspent program funds.

Details of our review, along with recommendations for corrective action, are attached.

### **Review of Report**

We discussed our report with AltaMed and DPSS in February 2010. AltaMed's response (Attachment I) indicates that they perform time studies at least annually and allocate payroll costs based on the time studies for staff working on multiple programs. However, this practice is not appropriate because it uses an estimate rather than actual time the employee worked on each program as required by the contract. AltaMed needs to ensure payroll costs are allocated based on the actual time staff worked on the County program and maintain supporting documentation.

DPSS' response (Attachment II) indicates agreement with our findings and recommendations and DPSS is following-up to ensure AltaMed implements our recommendations. DPSS also indicated that they intend to work with County Counsel to amend the Cal-Learn Program contracts to include the unspent revenue provision effective September 1, 2010, the start of the second contract year. In addition, in

January 2010, DPSS sent a letter to the California Department of Social Services (CDSS) requesting approval to include an unspent revenue provision in the affected contracts, as required by CDSS.

We thank AltaMed management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:AA

Attachments

c: William T Fujioka, Chief Executive Officer  
Philip L. Browning, Director, Department of Public Social Services  
Stuart Gray, Chair, Board of Directors, AltaMed Health Services Corporation  
Cástulo de la Rocha, J.D., President & CEO, AltaMed Health Services Corporation  
Public Information Office  
Audit Committee

**CAL-LEARN PROGRAM  
ALTAMED HEALTH SERVICES CORPORATION  
FISCAL YEAR 2008-09**

**ELIGIBILITY**

**Objective**

Determine whether AltaMed Health Services Corporation (AltaMed or Agency) provided services to individuals that met the eligibility requirements of the Cal-Learn Program.

**Verification**

We reviewed the case files for 20 (1%) of the 1,654 program participants that received services during February and March 2009.

**Results**

All 20 program participants met the eligibility requirements for the Cal-Learn Program.

**Recommendation**

**None.**

**PROGRAM SERVICES**

**Objective**

Determine whether AltaMed provided the services in accordance with the County contract and Cal-Learn guidelines. In addition, determine whether the program participants received the billed services.

**Verification**

We reviewed the case file documentation for 20 program participants that received services during February and March 2009. We also interviewed two participants.

**Results**

AltaMed provided the program services in accordance with the County contract.

**Recommendation**

**None.**

**STAFFING QUALIFICATIONS****Objective**

Determine whether AltaMed staff possessed the qualifications required by the County contract.

**Verification**

We reviewed the personnel files for ten of the 28 AltaMed employees that worked on the Cal-Learn Program.

**Results**

AltaMed's staff possessed the qualifications required by the County contract.

**Recommendation**

None.

**PERFORMANCE OUTCOMES****Objective**

Determine whether AltaMed met the planned performance outcomes as outlined in the County contract and reported the performance outcomes to the Department of Public Social Services (DPSS). The performance outcomes included maintaining a 70% orientation completion rate, a 60% school enrollment rate, a 50% report card submission rate and a 50% high school graduation rate.

**Verification**

We reviewed participant case files and the GAIN Employment Activity and Reporting System, an automated data management system that tracks each participant's progress in the program.

**Results**

AltaMed met the performance outcome measures outlined in the County contract.

**Recommendation**

None.

**CASH/REVENUE****Objective**

Determine whether cash receipts and revenue were properly recorded in AltaMed's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash.

**Verification**

We interviewed AltaMed personnel and reviewed financial records including the Agency's bank reconciliations for March 2009.

**Results**

AltaMed maintained adequate controls to ensure that revenue was properly recorded and deposited timely. For example, the Agency appropriately completed monthly bank reconciliations and deposited cash receipts timely.

**Recommendation**

None.

**UNSPENT REVENUE**

California Department of Social Services (CDSS) policy requires DPSS to use a fixed fee method when contracting for services involving State funds unless DPSS obtains CDSS approval to use a different method. The Cal-Learn Program is funded by the State. DPSS compensates AltaMed at a fixed monthly fee for each participant. However, AltaMed's Cal-Learn contract with the County does not include provisions requiring the Agency to return or reinvest unspent Program funds. AltaMed received \$1,993,611 from DPSS for the Cal-Learn Program from the prior year (May 2008 to April 2009). However, the Agency's expenditures totaled \$1,432,646, which is \$560,965 (\$1,993,611 - \$1,432,646) in unspent Program funds that the contract allowed the Agency to retain. In addition, the Agency retained \$315,032 in unspent funds from May 2007 to April 2008. AltaMed management indicated they used the unspent funds on other programs that benefit the Cal-Learn participants.

On September 1, 2009, DPSS amended their Cal-Learn contracts to allow the County to disallow costs that are inappropriately charged to the program. However, the contracts were not amended to require Agencies to reinvest unspent revenues. To ensure Cal-Learn funds are used for their intended purpose, DPSS needs to work with County Counsel to amend the Cal-Learn contracts to include provisions requiring Agencies to return or reinvest unspent revenues. DPSS should also obtain any necessary CDSS approval to amend the contracts.

**Recommendations****DPSS management:**

1. **Work with County Counsel to amend the Cal-Learn contracts to include provisions requiring Agencies to return or reinvest unspent revenues.**
2. **Obtain any necessary CDSS approval to amend the contracts.**

**EXPENDITURES/PROCUREMENT****Objective**

Determine whether program-related expenditures were allowable under the County contract and properly documented.

**Verification**

We interviewed AltaMed personnel and reviewed financial records and other documentation for seven non-payroll expenditures totaling \$11,515 billed by the Agency during February and March 2009.

**Results**

AltaMed did not appropriately allocate \$2,516 in rent costs to the Cal-Learn Program. The Agency's allocation method was partially based on an estimate of program caseloads rather than on the actual caseloads. As noted above, DPSS recently included provisions for disallowed costs in the new contract. However, additional terms requiring Agencies to return or reinvest unspent revenues are necessary to recover disallowed costs.

**Recommendation**

3. **AltaMed management allocate non-payroll expenses based on actual caseloads.**

**ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE****Objective**

Determine whether AltaMed maintained sufficient internal controls over its business operations and if the Agency is in compliance with other program and administrative requirements.

**Verification**

We interviewed AltaMed personnel, reviewed their policies and procedures manuals and conducted on-site visits.

**Results**

AltaMed maintained sufficient internal controls over its business operations and complied with other program and administrative requirements.

**Recommendation**

None.

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether AltaMed's fixed assets and equipment purchased with Cal-Learn funds were used for the Cal-Learn Program and were safeguarded.

We did not perform test work in this section, as AltaMed did not use Cal-Learn funds to purchase fixed assets or equipment.

**Recommendation**

None.

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures were appropriately charged to the Cal-Learn Program. In addition, determine whether AltaMed obtained background clearances and verified employment eligibility for the employees assigned to the Cal-Learn Program.

**Verification**

We traced the payroll expenditures for eight employees totaling \$12,216 for March 2009 to the Agency's payroll records and time reports. We also interviewed staff and reviewed ten personnel files for staff assigned to the Cal-Learn Program.

**Results**

AltaMed appropriately charged payroll expenditures for four employees that solely worked on the Cal-Learn Program. However, the Agency did not provide



documentation that they appropriately allocated \$5,788 in costs for four employees that worked on County and non-County programs based on the actual distribution of activities (i.e., hours, caseload, etc.). As noted above, DPSS recently included provisions for disallowed costs in the new contract. However, additional terms requiring Agencies to return or reinvest unspent revenues are necessary to recover disallowed costs.

#### **Recommendation**

- 4. AltaMed management allocate payroll costs based on the actual distribution of employee activities and maintain supporting documentation.**

### **COST ALLOCATION PLAN**

#### **Objective**

Determine whether AltaMed's Cost Allocation Plan was prepared in compliance with the County contract and if the Agency used the Plan to appropriately allocate shared program costs.

#### **Verification**

We reviewed the Cost Allocation Plan and a sample of expenditures AltaMed incurred during March 2009.

#### **Results**

AltaMed's Cost Allocation Plan was vague and did not comply with the federal cost allocation requirements identified in the County contract. In addition, the Agency did not provide documentation that they appropriately allocated costs to the Cal-Learn Program as discussed above.

We subsequently followed-up with the Agency in April 2010 and AltaMed management indicated that they plan to implement a revised Cost Allocation Plan in May 2010.

#### **Recommendation**

- 5. AltaMed management develop a Cost Allocation Plan that complies with the County contract.**

# AltaMed

March 22, 2010

**Wendy Watanabe, Auditor-Controller  
County of Los Angeles  
Countywide Contract Monitoring Division  
Department of Auditor-Controller  
350 South Figueroa Street, 8<sup>th</sup> Floor  
Los Angeles, California 90071**

**Re: County Audit of CalLearn Program Year July 1, 2008 through June 30, 2009**

Dear Ms. Watanabe,

This letter is in response to your agencies recommendations stemming from an audit commencing on May 19, 2009 of the CalLearn Program for the period July 1, 2008 through June 30, 2009.

**Recommendation** on Page 4, No. 3 of the enclosed CalLearn Program Audit states: "AltaMed management allocate non-payroll expenses using a method based on current period conditions and maintain supporting documentation".

AltaMed currently reviews allocations at a minimum annually and continuously updates allocations as program conditions warrant. AltaMed will document annual reviews of its allocations for appropriateness even if the results of such reviews do not warrant change to the current allocations.

**Recommendation** on Page 6, No. 4 of the enclosed CalLearn Program Audit states: "AltaMed management allocate payroll expenses based on the actual time spent working on the Cal-Learn Program and maintain supporting documentation".

*Continuing The Tradition Of Caring...*

AltaMed Health Services Corporation  
CORPORATE OFFICES  
500 CITADEL DRIVE, SUITE 490 □ LOS ANGELES, CA 90040 □ (323) 725-8751 □ FAX (323) 889-7399

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AltaMed has implemented a time study for all grants which will track 100% of each employee's time for a two week payroll period. The time-study will be performed at a minimum annually, with further consideration given as to whether more frequent time studies are necessary. The time-study will be signed by each employee, attesting to the accuracy and completeness of the time reported. The time study will be reviewed and approved by the respective supervisor via formal signature. The supervisor will then compare the time study findings to our payroll allocations and respective funding/budget. Any material deviation will be reported to finance and a change to the allocation will be implemented.

**Recommendation** on Page 6, No. 5 of the enclosed CalLearn Program Audit states: "AltaMed management develop a CAP that complies with the County contract".

AltaMed will amend its Policy and Procedure manual to be more specific as to comply with the County contract. We will process the revision to the policy expeditiously but due to many levels of review, no final implementation date is available at this point.

If you have any questions or concerns, please contact me at 323-889-7352.

Regards,

A handwritten signature in black ink, appearing to read "Paul Tropea", with a large, stylized initial "P" and "T".

Paul Tropea  
Senior Accountant

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ZEV YAROSLAVSKY

Third District

DON KNABE

Fourth District

MICHAEL D. ANTONOVICH

Fifth District

April 14, 2010

**TO:** Wendy L. Watanabe  
Auditor-Controller

A handwritten signature in dark ink, appearing to read 'P. Browning', is written over the 'TO:' line.

**FROM:** Philip L. Browning, Director

**SUBJECT: RESPONSE TO THE AUDITOR-CONTROLLER'S CONTRACT REVIEW  
OF THE ALTAMED HEALTH SERVICES CORPORATION,  
DEPARTMENT OF PUBLIC SOCIAL SERVICES CAL-LEARN  
PROGRAM**

As requested by your office, this provides the Department of Public Social Services' (DPSS) response to the findings and recommendations identified in the draft audit report for Fiscal Year (FY) 2008-09 for AltaMed Health Services Corporation. Our prior response to this report was sent on March 25, 2010, along with our response to the findings and recommendations identified in the draft audit report for FY 2008-09 for Children's Hospital of Los Angeles. However, your staff requested that we provide separate responses to each report.

The Department agrees with the findings and recommendations identified in the draft audit report, and is committed to working with County Counsel and the California Department of Social Services (CDSS) to implement all listed recommendations. Attached is detailed information on our corrective actions.

On January 28, 2010, we requested CDSS' approval to include an unspent revenue provision in all of DPSS' fixed-fee contracts with private, non-profit agencies. If CDSS approves, we intend to amend the Cal-Learn Case Management contracts to include the unspent revenues provision effective September 1, 2010, the start of the second contract year.

Please let me know if you have any questions, or staff may contact Sheri Lewis, Division Chief, Research, Evaluation and Quality Assurance Division, at (562) 908-5879.

PLB:lb

Attachment

**AUDITOR CONTROLLER'S REVIEW  
A DEPARTMENT OF PUBLIC SOCIAL SERVICES CAL-LEARN PROGRAM  
ALTAMED HEALTH SERVICES CORPORATION CONTRACT REVIEW  
FISCAL YEAR 2008-2009  
RECOMMENDATIONS AND DPSS RESPONSES**

**UNSPENT REVENUE**

**DPSS MANAGEMENT:**

**RECOMMENDATION 1:**

Work with County Counsel to amend the Cal-Learn contract to include provisions requiring agencies to return or reinvest unspent revenues.

**RECOMMENDATION 2:**

Obtain California of Department Social Services (CDSS) approval to amend the contracts, if necessary.

**RESPONSE TO 1-2: DPSS AGREES**

DPSS will work with County Counsel to implement these recommendations. Also, on January 28, 2010, DPSS sent a letter to CDSS requesting approval to include an unspent revenues provision in all of DPSS' fixed-fee contracts with private, non-profit agencies. CDSS Regulation 23-604.3.374 requires the firm-fixed price method of reimbursement for agreements with non-public/non-governmental agencies.

**TARGET DATE 1-2:**

If approval is received, DPSS intends to amend the Cal-Learn Case Management contract to include the unspent revenues provision effective September 1, 2010, the start of the second contract year.

**EXPENDITURES/PROCUREMENT**

**RECOMMENDATION 3:**

AltaMed management allocate non-payroll expenses using a method based on current period conditions and maintain supporting documentation.

**RESPONSE: DPSS AGREES**

On March 15, 2010, DPSS asked the contractor to provide a confirmation letter that all necessary corrective actions are taken to prevent this type of error from happening in the future.

**TARGET DATE:**

Target date for the contractor to provide the confirmation letter is 04/15/2010.

**PAYROLL AND PERSONNEL**

**RECOMMENDATION 4:**

AltaMed management allocate payroll expenses based on the actual time spent working on the Cal-Learn Program and maintain supporting documentation.

**RESPONSE: DPSS AGREES**

On March 15, 2010, DPSS asked the contractor to provide a confirmation letter that all necessary corrective actions are taken to prevent this type of error from happening in the future.

**TARGET DATE:**

Target date for the contractor to provide the confirmation letter is 04/15/2010.

A-C's AltaMed Contract Reviews  
DPSS Response  
Page 2

**COST ALLOCATION PLAN**

**RECOMMENDATION 5:**

AltaMed management develop a CAP that complies with the County contract.

**RESPONSE: DPSS AGREES**

On March 15, 2010, DPSS asked the contractor to provide a confirmation letter that a CAP that complies with the County contract was developed.

**TARGET DATE:**

Target date for the contractor to provide the confirmation letter is 04/15/2010.